

**CITY OF EPHRAIM, UTAH
INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

**CITY OF EPHRAIM, UTAH
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YEAR ENDED JUNE 30, 2005**

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LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 28, 2005

Honorable Mayor
Members of the City Council
City of Ephraim, Utah

Mayor and Council Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ephraim, as of and for the year ended June 30, 2005, which collectively comprise the City of Ephraim's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Ephraim's management. Our responsibility is to express opinions on these financial statements based on our audit.

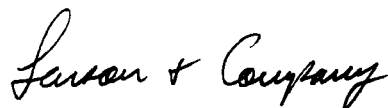
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ephraim, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages MDA-1 through MDA-6 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 2005, on our consideration of the City of Ephraim's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ephraim's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Larson & Company
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Ephraim City, we offer readers of the Ephraim City financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. It is designed to provide an overview of the City's financial activity. It is also intended to assist the reader in focusing on significant financial issues, including identifying changes in the City's financial position (its ability to address the next and subsequent years' challenges), identifying any material deviations from the approved budget, and identifying individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

The total net assets of Ephraim City increased by \$1,356,220 to \$17,078,156. The governmental net assets decreased by \$399,130 and the business-type net assets increased by \$957,090.

The total net assets of \$17,078,156 are made up of \$13,388,611 in capital assets net of related debt and \$3,689,545 in other net assets.

The General Fund (the primary operating fund) had an increase in its fund balance of \$74,146.

REPORTING THE CITY AS A WHOLE

The discussion and analysis is intended to serve as an introduction to Ephraim City's basic financial statements. Ephraim City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information, in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of Ephraim City's finances, in a manner similar to the financial statements of a private-sector business.

The statement of net assets presents information on all of Ephraim City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Ephraim City is improving or deteriorating. However, other non-financial factors need to be considered.

The statement of activities presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as

the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of Ephraim City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Ephraim City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds - These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The only major governmental funds (as determined by generally accepted accounting principles) are the General Fund and the Capital Projects Fund (Building Authority). The other governmental funds are determined to be non-major and are included in the combining statements within this report.

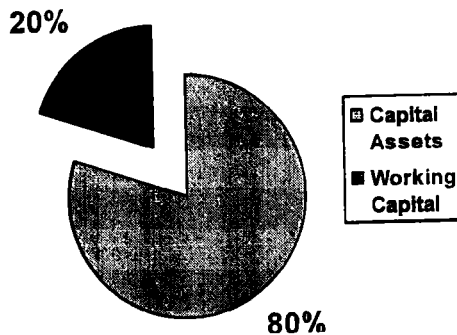
Proprietary funds - Ephraim City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Ephraim City uses enterprise funds to account for its Electric Utility, Water Utility and Sewer Utility, Solid Waste Utility, Fire District, Housing Authority, Industrial Park, Ambulance Association, and Rodeo Ground Complex. As determined by generally-accepted accounting principles all Ephraim City's enterprise funds that meet the criteria for major fund classification are as follows: Water Utility, Sewer Utility, Electric Utility, and the Housing Authority.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Ephraim City, assets exceed liabilities by \$17,078,156.

By far the largest portion of Ephraim City's net assets (\$17,078,156) reflects its investment in capital assets (e.g., land, buildings, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Total Asset Comparison



The following two tables are summaries of the net assets and changes in net assets of Ephraim City:

Net Assets June 30, 2005 and 2004

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$1,411,042	\$921,346	\$3,595,175	\$3,147,426	\$5,006,217	\$4,068,772
Capital assets	11,140,043	11,072,921	8,629,304	8,576,777	19,769,347	19,649,698
Total assets	12,551,085	11,994,267	12,224,479	11,724,203	24,775,564	23,718,470
Other liabilities	635,891	362,795	165,935	393,204	801,826	755,999
Long-term liabilities outstanding	4,199,919	4,314,771	2,695,663	2,925,208	6,895,582	7,239,979
Total liabilities	4,835,810	4,677,566	2,861,598	3,318,412	7,697,408	7,995,978
Net assets:						
Invested in capital assets, net of related debt	7,196,871	7,014,002	6,277,125	6,019,439	13,473,996	13,033,441
Restricted	216,337	214,475	1,149,483	1,119,477	1,365,820	1,333,952
Unrestricted	302,067	88,224	1,936,273	1,266,875	2,238,340	1,355,099
Total net assets	<u>\$7,715,275</u>	<u>\$7,316,701</u>	<u>\$9,362,881</u>	<u>\$8,405,791</u>	<u>\$17,078,156</u>	<u>\$15,722,492</u>

Changes in Net Assets
June 30, 2005 and 2004

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 283,114	\$ 314,086	\$ 4,057,875	\$ 3,961,013	\$ 4,340,989	\$ 4,275,099
Operating grants and contributions	635,406	251,807	-	-	635,406	251,807
Capital grants and contributions	82,610	101,537	151,404	115,288	234,014	216,825
General revenues:						
Property taxes	236,276	235,174	-	-	236,276	235,174
Other taxes	1,203,206	1,123,830	-	-	1,203,206	1,123,830
Unrestricted investment earnings	52,406	23,669	17,206	6,470	69,612	30,139
Miscellaneous	457,709	256,877	60,398	-	518,107	256,877
Total revenues	<u>2,950,727</u>	<u>2,306,980</u>	<u>4,286,883</u>	<u>4,082,771</u>	<u>7,237,610</u>	<u>6,389,751</u>
Expenses:						
General government	606,860	576,513	-	-	606,860	576,513
Public safety	474,523	499,687	-	-	474,523	499,687
Highways and public improvements	670,771	690,814	-	-	670,771	690,814
Cemetery	100,412	63,199	-	-	100,412	63,199
Parks and recreation	453,805	227,396	-	-	453,805	227,396
Community and economic development	29,481	186,733	-	-	29,481	186,733
Operating expenses (business type)	-	-	3,455,948	2,893,471	3,455,948	2,893,471
Interest expense	(3,018)	90,737	93,164	102,904	90,146	193,641
Total expenses	<u>2,332,834</u>	<u>2,335,079</u>	<u>3,549,112</u>	<u>2,996,375</u>	<u>5,881,946</u>	<u>5,331,454</u>
Increase in net assets before transfers	<u>617,893</u>	<u>(28,099)</u>	<u>737,771</u>	<u>1,086,396</u>	<u>1,355,664</u>	<u>1,058,297</u>
Transfers	11,800	11,800	(11,800)	(11,800)	-	-
Increase in net assets	<u>629,693</u>	<u>(16,299)</u>	<u>725,971</u>	<u>1,074,596</u>	<u>1,355,664</u>	<u>1,058,297</u>
Net assets - beginning	<u>7,316,701</u>	<u>7,333,000</u>	<u>8,405,791</u>	<u>7,331,195</u>	<u>15,722,492</u>	<u>14,664,195</u>
Prior period adjustment	(231,119)	-	231,119	-	-	-
Net assets - ending	<u>\$7,715,275</u>	<u>\$7,316,701</u>	<u>\$9,362,881</u>	<u>\$8,405,791</u>	<u>\$17,078,156</u>	<u>\$15,722,492</u>

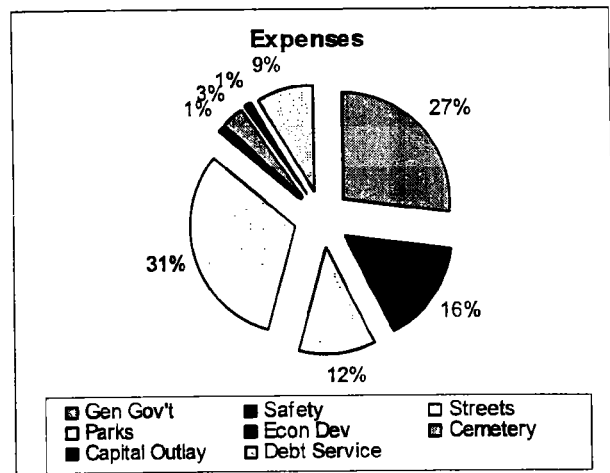
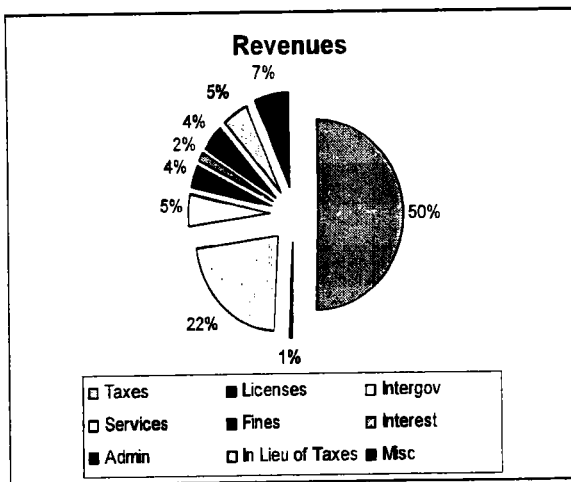
FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

As of June 30, 2005 the City's governmental funds (General, Capital Projects, Special Revenue and Permanent Fund) reported combined fund equity of \$817,201. This represents a increase of \$225,155 from last year's ending balances, most of which arrive from the increase of revenues over expenditures in the General Fund most of which arrived from debt proceeds for the ambulance building.

The General Fund is the chief operating fund of the City. All activities which are not required to be accounted for in separate funds, either by state or local ordinance or by a desire to maintain a matching of revenues and expenses, are accounted for in this fund.

Taxes continue to be a large source of revenue in the Governmental Funds and represent 50.24% of total general fund revenues. The largest element of taxes is sales tax, as it has been for the last several years. It represents 61.8% of total tax revenues and represents 31.07% of total general fund revenues.



As stated earlier, the City maintains several enterprise funds to account for the business-type activities of the City. The separate fund statements included in this report provide the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the General Fund original budget was amended from an original budget expenditure total of \$3,187,609 to a final budget of \$3,324,460.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - Ephraim City's investment in capital assets for its governmental and business-type activities as of June 30, 2005 amounts to \$19,769,347 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, and machinery and equipment.

Major capital asset events during this fiscal year included the following:

Police Vehicle	\$26,250	Ball Park Lights	\$223,430
Cemetery Gazebo	\$35,636	Ambulance Building	\$17,400
Vacuum Truck	\$105,000	Airport Project	\$418,534

Long-term debt - At June 30, 2005 the City had total debt outstanding of \$6,895,581. Of this amount, \$467,267 is due within 12 months of the fiscal year. However, we paid off \$532,817 before December 31, 2005.

Additional information on the outstanding debt obligations of the City can be found in the footnotes to this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The unemployment rate for Sanpete County is 5.8% compared with a state unemployment rate of 4.0% and a national rate of 5.0%. Juab County's rate in 2003 was 7.4% (Source: Utah Department of Workforce Services).

The General Fund budget for fiscal year ending June 30, 2005 reflects an increase of 14% over the final budget for the fiscal year ended June 30, 2004. The largest part of this increase is due to the following items:

Ball Park Light Project	\$185,000
Sports Complex Operation Agreement	20,000
Library Renovation	100,000
Cemetery Gazebo	34,000
Building Authority Transfer to Increase Equity	<u>78,181</u>
Total Increase	<u>\$417,181</u>

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Ephraim City's finances for all those with an interest in the City's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to: City Recorder, Ephraim City, 5 South Main, Ephraim, Utah 84627.

BASIC FINANCIAL STATEMENTS

Ephraim City
Statement of Net Assets
June 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 406,005	\$ 1,859,836	\$ 2,265,841
Receivables (net of allowance for doubtful accounts):			
Trade accounts	577,886	385,682	963,568
Other	78,177	8,205	86,382
Inventory	-	249,934	249,934
Internal balances	(129,762)	129,762	-
Restricted Assets:			
Cash and cash equivalents	478,736	961,756	1,440,492
Capital assets (net of accumulated depreciation):			
Land	225,259	320,845	546,104
Buildings	3,063,334	-	3,063,334
Improvements other than buildings	797,040	7,456,199	8,253,239
Equipment	409,238	712,510	1,121,748
Water rights	-	89,300	89,300
Impact fee assets	-	50,450	50,450
Infrastructure	6,645,172	-	6,645,172
Total Assets	<u>12,551,085</u>	<u>12,224,479</u>	<u>24,775,564</u>
LIABILITIES			
Accounts payable	390,228	131,908	522,136
Accrued liabilities	122,550	-	122,550
Compensated absences	42,050	34,027	76,077
Deferred revenue	81,063	-	81,063
Noncurrent Liabilities:			
Due within one year	256,747	210,520	467,267
Due in more than one year	3,943,172	2,485,143	6,428,315
Total Liabilities	<u>4,835,810</u>	<u>2,861,598</u>	<u>7,697,408</u>
NET ASSETS			
Invested in capital assets, net of related debt	7,196,871	6,277,125	13,473,996
Restricted for:			
Redevelopment agency	(158,165)	-	(158,165)
Perpetual care	221,113	-	221,113
Bond requirements	-	308,549	308,549
Impact fees	153,389	591,000	744,389
Inventory	-	249,934	249,934
Unrestricted	302,067	1,936,273	2,238,340
Total net assets	<u>\$ 7,715,275</u>	<u>\$ 9,362,881</u>	<u>\$ 17,078,156</u>

Ephraim City
Statement of Activities
For the Year Ended June 30, 2005

Function/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total
	Expenses					
Primary Government:						
Governmental Activities:						
General government	\$ 606,860	\$ 120,031	\$ 10,500	\$ 17,470	\$ (458,859)	\$ (458,859)
Public safety	474,523	115,932	33,017	11,848	(313,726)	(313,726)
Highways and public improvements	670,771	-	156,166	33,852	(480,753)	(480,753)
Cemetery	100,412	-	-	-	(100,412)	(100,412)
Parks, recreation, and public property	453,805	47,151	435,723	19,440	48,509	48,509
Community and economic development	29,481	-	-	-	(29,481)	(29,481)
Interest	(3,018)	-	-	-	3,018	3,018
Total Governmental Activities	2,332,834	283,114	635,406	82,610	(1,331,704)	(1,331,704)
Business-type Activities:						
Water	436,749	410,101	-	107,392	80,744	80,744
Sewer	343,296	354,345	-	44,012	55,061	55,061
Electric	2,092,295	2,567,482	-	-	475,187	475,187
Housing authority	403,084	476,152	-	-	73,068	73,068
Solid waste	115,603	127,022	-	-	11,419	11,419
Fire district	56,001	48,914	-	-	(7,087)	(7,087)
Industrial park	-	-	-	-	-	-
Rodeo grounds	6,993	-	-	-	(6,993)	(6,993)
Ambulance	95,091	73,859	-	-	(21,232)	(21,232)
Total Business-type Activities	3,549,112	4,057,875	-	151,404	660,167	660,167
Total Primary Government	\$5,881,946	\$4,340,989	\$ 635,406	\$ 234,014	(1,331,704)	(671,537)
General Revenues:						
Property taxes				236,276	-	236,276
Sales taxes				890,361	-	890,361
Franchise taxes				287,845	-	287,845
Other taxes				25,000	-	25,000
Unrestricted investment earnings				52,406	17,206	69,612
Administrative costs				126,688	-	126,688
In lieu of taxes				138,470	-	138,470
Miscellaneous				192,551	60,398	252,949
Transfers				11,800	(11,800)	-
Total General Revenues and Transfers				1,961,397	65,804	2,027,201
Change in Net Assets				629,693	725,971	1,355,664
Net Assets - Beginning				7,316,701	8,405,791	15,722,492
Prior Period Adjustment				(231,119)	231,119	-
Net Assets - Ending				\$ 7,715,275	\$ 9,362,881	\$ 17,078,156

The Notes to the Financial Statements are an Integral Part of this Statement.

**Ephraim City
Balance Sheet
Governmental Funds
For the Year Ended June 30, 2005**

	General Fund	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 397,101	\$ 8,904	\$ -	\$ 406,005
Accounts Receivable:				
Trade accounts (net of allowance)	577,886	-	-	577,886
Other	9,302		68,875	78,177
Due from other funds	15,126	-	6,235	21,361
Restricted assets:				
Cash and cash equivalents	-	256,177	222,559	478,736
Total Assets	<u>\$ 999,415</u>	<u>\$ 265,081</u>	<u>\$ 297,669</u>	<u>\$ 1,562,165</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 390,228	\$ -	\$ -	\$ 390,228
Accrued liabilities	53,844	66,171	2,535	122,550
Due to other funds	-	-	151,123	151,123
Deferred revenue	-	-	81,063	81,063
Total Liabilities	<u>444,072</u>	<u>66,171</u>	<u>234,721</u>	<u>744,964</u>
Fund Balances:				
Reserved for:				
Redevelopment agency	-	-	(158,165)	(158,165)
Perpetual care	-	-	221,113	221,113
Impact fees	153,389	-	-	153,389
Designated for:				
Debt service	150,000	-	-	150,000
Capital projects	-	198,910	-	198,910
Airport	59,643	-	-	59,643
Undesignated	192,311	-	-	192,311
Total Fund Balances	<u>555,343</u>	<u>198,910</u>	<u>62,948</u>	<u>817,201</u>
Total Liabilities and Fund Balances	<u>\$ 999,415</u>	<u>\$ 265,081</u>	<u>\$ 297,669</u>	<u>\$ 1,562,165</u>

Ephraim City
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005

Total fund balances - governmental fund types (page 5):	\$ 817,201
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	11,140,043
Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(4,241,969)</u>
Net assets of government activities (page 3):	<u><u>\$ 7,715,275</u></u>

Ephraim City
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	General Fund	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 1,414,482	\$ -	\$ 25,000	\$ 1,439,482
Licenses and permits	20,090	-	-	20,090
Intergovernmental revenues	635,406	-	-	635,406
Charges for services	106,376	-	49,704	156,080
Fines and forfeitures	106,944	-	-	106,944
Interest income	46,912	2,545	76	49,533
Administration	126,688	-	-	126,688
In lieu of taxes	138,470	-	-	138,470
Miscellaneous	186,301	-	6,250	192,551
Total Revenues	<u>2,781,669</u>	<u>2,545</u>	<u>81,030</u>	<u>2,865,244</u>
EXPENDITURES				
Current:				
General government	753,630	-	-	753,630
Public safety	439,532	-	-	439,532
Highways and public improvements	335,094	-	-	335,094
Parks, recreation, and public property	881,887	-	-	881,887
Community and economic development	15,402	-	10,455	25,857
Cemetery	94,961	-	-	94,961
Capital outlay	-	31,272	-	31,272
Debt Service:				
Principal	-	166,769	75,516	242,285
Interest	-	(1,588)	(1,430)	(3,018)
Total Expenditures	<u>2,520,506</u>	<u>196,453</u>	<u>84,541</u>	<u>2,801,500</u>
Excess Revenues Over (Under) Expenditures	<u>261,163</u>	<u>(193,908)</u>	<u>(3,511)</u>	<u>63,744</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	13,000	329,876	-	342,876
Transfers out	(282,627)	-	(48,449)	(331,076)
Loan/Lease proceeds	-	141,000	-	141,000
Impact fees	82,610	-	-	82,610
Interest income	-	-	2,873	2,873
Total Other Financing Sources and Uses	<u>(187,017)</u>	<u>470,876</u>	<u>(45,576)</u>	<u>238,283</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>74,146</u>	<u>276,968</u>	<u>(49,087)</u>	<u>302,027</u>
Fund Balances - Beginning	545,068	(78,058)	112,035	579,045
Prior Period Adjustment	(63,871)	-	-	(63,871)
Fund Balances - Ending	<u>\$ 555,343</u>	<u>\$ 198,910</u>	<u>\$ 62,948</u>	<u>\$ 817,201</u>

Ephraim City
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds (page 7):	\$ 302,027
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	234,936
Governmental funds report the issuance of debt as an other financing source in the governmental fund statement of revenues, expenditures, and changes in fund balances. Likewise, discounts on debt are treated as an other financing use and issuance costs (including underwriter's discounts) are treated as an expenditure in that same statement. In contrast, all of these amounts should appear on the government-wide statement of net assets as a liability (debt payable) a contra-liability (discount), and a deferred charge (unamortized issuance costs).	(141,000)
Debt service principal payments are reported separately in the governmental fund statement of revenues, expenditures, and changes in fund balances. These expenditures must be removed and replaced by a corresponding reduction in the related liability reported in the government-wide statement of net assets.	242,285
Expenditures are recognized in the governmental funds when paid or due for: items not normally paid with available financial resources and interest on long term debt. However, the Statement of Activities is presented on the accrual basis and expenses and liabilities are reported when incurred, regardless of when financial resources are available or expenditures are paid or due. This adjustment combines the net changes of the following balances: Compensated Absences	(8,555)
Change in net assets of governmental activities (page 4):	<hr/> <u>\$ 629,693</u>

Ephraim City
Statement of Revenues, Expenditures, and Changes in Fund Balances -- Budget and Actual
General Fund
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over(Under)
	Original	Final		
REVENUES				
Taxes	\$ 1,258,500	\$ 1,309,500	\$ 1,414,482	\$ 104,982
Licenses and permits	20,500	20,500	20,090	(410)
Intergovernmental revenues	921,100	933,100	635,406	(297,694)
Charges for services	21,100	16,600	106,376	89,776
Fines and forfeitures	100,000	111,000	106,944	(4,056)
Interest income	8,000	8,000	46,912	38,912
Administrative	310,158	126,688	126,688	-
In lieu of taxes	51,000	138,470	138,470	-
Miscellaneous	179,082	179,082	186,301	7,219
Total Revenues	2,869,440	2,842,940	2,781,669	(61,271)
EXPENDITURES				
Current:				
General government	922,325	1,012,176	753,630	(258,546)
Public safety	423,954	448,954	439,532	(9,422)
Highways and public improvements	398,153	398,153	335,094	(63,059)
Cemetery	91,560	96,060	94,961	(1,099)
Airport	504,000	504,000	419,951	(84,049)
Parks, recreation, and public property	563,990	563,990	461,936	(102,054)
Community and economic development	18,500	18,500	15,402	(3,098)
Total Expenditures	2,922,482	3,041,833	2,520,506	(521,327)
Excess Revenues Over (Under)				
Expenditures	(53,042)	(198,893)	261,163	460,056
Other financing sources (uses)				
Transfers in	13,000	386,520	13,000	(373,520)
Transfers out	(265,127)	(282,627)	(282,627)	-
Impact fees	50,000	95,000	82,610	(12,390)
Total Other Financing Sources and Uses	(202,127)	198,893	(187,017)	(385,910)
Excess of Revenues and Other Sources				
Over (Under) Expenditures and Other Uses	(255,169)	-	74,146	74,146
Fund Balances - Beginning	545,068	545,068	545,068	-
Prior Period Adjustment			(63,871)	
Fund Balances - Ending	\$ 289,899	\$ 545,068	\$ 555,343	\$ 74,146

Ephraim City
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Business-Type Activities - Enterprise Funds					
	Water	Sewer	Electric	Housing Authority	Other Proprietary	Total
ASSETS						
Current Assets:						
Cash and cash equivalents	\$ 165,478	\$ 207,441	\$ 1,123,701	\$ 241,352	\$ 121,864	\$ 1,859,836
Accounts Receivable:						
Utilities receivable	53,647	67,289	229,615	18,818	19,850	389,219
Allowance for doubtful accounts	(340)	(248)	(2,779)	-	(170)	(3,537)
Other receivables	5,656	-	-	-	2,549	8,205
Inventory - at cost	37,680	7,710	105,044	99,500	-	249,934
Due from other funds	15,368	18,435	91,006	10,461	4,559	139,829
Restricted Assets						
Restricted cash and cash equivalents	410,822	266,892	284,042	-	-	961,756
Total Current Assets	688,311	567,519	1,830,629	370,131	148,652	3,605,242
FIXED ASSETS						
Land	2,000	318,845	-	-	-	320,845
Improvements other than buildings	3,340,340	2,668,518	5,685,611	-	142,187	11,836,656
Less: accumulated depreciation	(1,345,071)	(640,659)	(2,391,567)	-	(3,160)	(4,380,457)
Machinery and equipment	519,403	251,129	814,096	-	307,448	1,892,076
Less: accumulated depreciation	(382,464)	(147,530)	(517,992)	-	(131,580)	(1,179,566)
Water rights	89,300	-	-	-	-	89,300
Impact fee assets	50,450	-	-	-	-	50,450
Total Noncurrent Assets	2,273,958	2,450,303	3,590,148	-	314,895	8,629,304
Total Assets	2,962,269	3,017,822	5,420,777	370,131	463,547	12,234,546
LIABILITIES						
Current Liabilities:						
Accounts payable	42,957	33,524	40,135	11,619	3,673	131,908
Compensated absences	14,835	1,360	17,832	-	-	34,027
Due to other funds	-	-	-	10,067	-	10,067
Current portion of capital leases payable	34,766	-	-	-	-	34,766
Current portion of bonds payable	59,152	104,000	-	12,602	-	175,754
Total Current Liabilities	151,710	138,884	57,967	34,288	3,673	386,522
Noncurrent Liabilities:						
Capital lease payable	-	-	-	-	-	-
Bonds payable	714,065	1,698,295	-	72,783	-	2,485,143
Total Noncurrent Liabilities	714,065	1,698,295	-	72,783	-	2,485,143
Total Liabilities	865,775	1,837,179	57,967	107,071	3,673	2,871,665
NET ASSETS						
Invested in capital assets, net of related debt	1,467,981	682,266	3,811,983	-	314,895	6,277,125
Retained Earnings						
Restricted for:						
Bond requirements	52,456	34,258	221,835	-	-	308,549
Impact fees	358,366	232,634	-	-	-	591,000
Inventory	37,680	7,710	105,044	99,500	-	249,934
Unreserved	180,011	223,775	1,223,948	163,560	144,979	1,936,273
Total Net Assets	\$ 2,096,494	\$ 1,180,643	\$ 5,362,810	\$ 263,060	\$ 459,874	\$ 9,362,881

Ephraim City
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds					
	Water	Sewer	Electric	Housing Authority	Other Proprietary	Total
Operating Revenues:						
Charges for sales and services	\$ 410,101	\$ 354,345	\$ 2,567,482	\$ 476,152	\$ 249,795	\$ 4,057,875
Miscellaneous	5,885	34,100	10,086	150	10,177	60,398
Total Operating Revenues	415,986	388,445	2,577,568	476,302	259,972	4,118,273
Operating Expenses:						
Salaries and wages	90,414	82,163	201,582	-	6,533	380,692
Employee benefits	38,607	30,075	89,639	-	-	158,321
Power purchases	-	-	1,257,176	-	-	1,257,176
Administrative costs	15,091	13,163	91,937	-	4,497	124,688
Materials and supplies	34,086	19,045	123,877	147,283	34,213	358,504
Repairs and maintenance	14,176	10,987	37,083	-	12,488	74,734
Depreciation	162,856	69,022	173,205	-	15,015	420,098
Service in lieu of taxes	33,313	31,008	50,834	-	23,315	138,470
Insurance	7,553	9,842	7,488	4,542	1,070	30,495
Professional services	4,530	634	35,230	248,344	54,900	343,638
Utilities and telephone	1,284	1,243	4,741	422	-	7,690
Travel and training	2,329	1,345	3,940	-	5,726	13,340
Landfill costs	-	-	-	-	38,659	38,659
Leases	1,700	1,700	1,700	-	-	5,100
Collection costs	-	-	-	-	71,358	71,358
Miscellaneous	9,195	4,236	12,240	1,400	5,914	32,985
Total Operating Expenses	415,134	274,463	2,090,672	401,991	273,688	3,455,948
Operating Income	852	113,982	486,896	74,311	(13,716)	662,325
Nonoperating Revenues (Expenses):						
Interest revenue	7,982	4,878	1,493	2,509	344	17,206
Interest expense	(21,615)	(68,833)	(1,623)	(1,093)	-	(93,164)
Impact fees	107,392	44,012	-	-	-	151,404
Total Nonoperating Revenues (Expenses)	93,759	(19,943)	(130)	1,416	344	75,446
Other Financing Sources (Uses)						
Operating transfers out	-	-	-	-	(11,800)	(11,800)
Total Other Financing Sources (Uses)	-	-	-	-	(11,800)	(11,800)
Net Income (Loss)	94,611	94,039	486,766	75,727	(25,172)	725,971
Change in Net Assets	94,611	94,039	486,766	75,727	(25,172)	725,971
Total Net Assets - Beginning	2,001,883	1,086,604	4,876,044	187,333	253,927	8,405,791
Prior Period Adjustment					231,119	231,119
Total Net Assets - Ending	\$ 2,096,494	\$ 1,180,643	\$ 5,362,810	\$ 263,060	\$ 459,874	\$ 9,362,881

Ephraim City
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds					
	Water	Sewer	Electric	Housing Authority	Other Proprietary	Total
Cash Flows From Operating Activities						
Receipts from customers	\$ 446,546	\$ 431,169	\$ 2,739,065	\$ 500,638	\$ 314,084	\$ 4,431,502
Other cash receipts	5,885	34,100	10,086	150	10,177	60,398
Payments to suppliers	(133,366)	(149,022)	(1,670,118)	(464,365)	(349,358)	(2,766,229)
Payments to employees	(129,021)	(112,238)	(291,221)	-	(6,533)	(539,013)
Net cash provided (used) by operating activities	190,044	204,009	787,812	36,423	(31,630)	1,186,658
Cash Flows From Non-Capital and Related Financing Activities						
Operating transfers out	-	-	-	-	(11,800)	(11,800)
Net cash provided (used) by non-capital and related financing activities	-	-	-	-	(11,800)	(11,800)
Cash Flows From Capital and Related Financing Activities						
Purchases of capital assets	(31,333)	(105,001)	(15,000)	-	-	(151,334)
Principal paid on capital debt	(93,046)	(101,000)	(32,446)	(3,053)	-	(229,545)
Collection of impact fees	107,392	44,012	-	-	-	151,404
Interest paid on capital debt	(21,615)	(68,833)	(1,623)	(1,093)	-	(93,164)
Net cash provided (used) by capital and related financing activities	(38,602)	(230,822)	(49,069)	(4,146)	-	(322,639)
Cash Flows From Investing Activities						
Interest and dividends received	7,982	4,878	1,493	2,509	-	16,862
Net cash provided (used) by investing activities	7,982	4,878	1,493	2,509	-	16,862
Net increase (decrease) in cash and cash equivalents	159,424	(21,935)	740,236	34,786	(43,430)	869,081
Cash and cash equivalents, July 1	416,876	496,268	667,507	206,566	165,294	1,952,511
Cash and cash equivalents, June 30	\$ 576,300	\$ 474,333	\$ 1,407,743	\$ 241,352	\$ 121,864	\$ 2,821,592
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income	\$ 852	\$ 113,982	\$ 486,896	\$ 74,311	\$ (13,716)	\$ 662,325
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	162,856	69,022	173,205	-	15,015	420,098
(Increase) decrease in accounts receivable	32,227	54,388	169,933	9,235	50,068	315,851
(Increase) decrease in due from/to other funds	4,218	22,436	1,650	15,251	14,221	57,776
(Increase) decrease in inventories	(2,687)	79	40,681	(68,700)	-	(30,627)
Increase (decrease) in utility deposits	-	-	-	-	-	-
Increase (decrease) in accrued liabilities	(7,422)	(55,898)	(84,553)	6,326	(97,218)	(238,765)
Total adjustments	189,192	90,027	300,916	(37,888)	(17,914)	524,333
Net cash provided (used) by operating activities	\$ 190,044	\$ 204,009	\$ 787,812	\$ 36,423	\$ (31,630)	\$ 1,186,658

CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

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CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. For the fiscal year ended June 30, 2004, the City has implemented the new financial reporting requirements of GASB Statement Nos. 33 and 34. As a result, an entirely new financial presentation format has been implemented.

1.A. FINANCIAL REPORTING ENTITY

Ephraim City is a political subdivision of the State of Utah. The City is governed by a mayor and an elected board of five council members. The financial statements of Ephraim City may include those of separately administered organizations that are controlled by or are dependent on the City. Control or dependence is determined on the basis of financial interdependence, selection of governing authority, designation of management ability to significantly influence operations and accountability for fiscal matters. Using these criteria no potential component units are included in the City's financial statements.

The accounting policies of Ephraim City, Utah, conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant of such policies.

The City's financial reporting entity comprises the following:

Primary Government:	City of Ephraim
Component Units:	None

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type

CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Capital Project Fund

The Capital Project Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes only one Capital Project Fund and it is used to account for the acquisition of capital assets with transfers made from the General Fund.

CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Permanent Fund

The Permanent Fund accounts for assets held by the City pursuant to a trust agreement. The principle portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.

Proprietary Fund

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the water, sewer, solid waste and electric funds.

Major and Non-major Funds

The funds are further classified as major or non-major as follows:

<u>Fund</u>	<u>Brief Description</u>
Major:	
General	See above for description.
Capital Projects Fund	See above for description.
Enterprise Funds:	
Water, Sewer, Electric, and Housing Authority	Accounts for revenues and expenditures of water, sewer and electric utilities, and housing authority.
Nonmajor:	
Special Revenue Funds:	Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.
Redevelopment Agency Special Assessment Guarantee	
Enterprise Funds:	
Solid Waste Fund, Fire District, Industrial Park, Rodeo Grounds, and the Ambulance Fund.	Accounts for revenues and expenditures of each respective fund.
Permanent Fund:	The Permanent Fund accounts for assets held by the City pursuant to a trust agreement. The principle portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.
Cemetery - Perpetual Care	

CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures

CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

(including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less. Investments of the promissory note trustee accounts are not considered cash equivalents.

Investments are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2.B. and 3.A.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3.G. for details of interfund transactions, including receivables and payables at year-end.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include; property taxes, sales taxes, water, sewer and garbage utilities, resort community taxes, and class "C" road funds. Business-type activities report utilities as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be

CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings and Improvements	30-45 years	30-45 years
Machinery and Equipment	10-15 years	10-15 years
Vehicles	5-10 years	5-10 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets consist of various cash balances that are restricted as to their use. Certain cash balances are restricted by provisions of the bond resolutions. These include the bond, and emergency repairs accounts in the enterprise funds. Customer deposits are

CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

also restricted in the enterprise funds. Class C Road revenue not spent is restricted in the general fund to be used for future roadwork and funds are held for the fire department to be used for future expenditures.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable, capital leases payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements. See Note 3.H. for additional disclosures.

1.E. REVENUES, EXPENDITURES AND EXPENSES

Property taxes, franchise taxes, licenses, interest and special assessments are susceptible to accrual. Sales taxes collected and held by the state at year-end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Property taxes are based on the assessments against property owners. Tax levies on such assessed values are certified to Sanpete County prior to the commencement of the fiscal year. Property taxes become a lien on January 1 and are levied on the first Monday in August. Taxes are due and payable on November 1, and are delinquent after November 30 of each year. Property taxes are collected by the Utah County Treasurer and remitted to the City shortly after collection.

Sales taxes are collected by the Utah State Tax Commission and are remitted to the City monthly.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds—By Character:

- Current (further classified by function)
- Debt Service
- Capital Outlay

CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Proprietary Fund—By Operating and Non-operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows.

2.A. FUND ACCOUNTING REQUIREMENTS

The City complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the City include the following:

<u>Fund</u>	<u>Required By</u>
Perpetual Care	State Law

2.B. DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

The City maintains a cash and investment pool that is available for use by all funds. In addition, investments are separately held by several of the City funds. Deposits are not collateralized, nor are they required to be by State statute.

The City follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the deposit of City funds in a "qualified depository." The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Utah Money Management Act and adhering to the rules of the Utah Money Management Council.

CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

The Utah Money Management Act also defines the types of securities allowed as appropriate temporary investments for the City and the conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

Certain assets are restricted by provisions of the revenue bond resolutions. The resolutions also describe how these restricted assets may be deposited and invested. Restricted cash may only be deposited in state or national banks meeting certain minimum net worth requirements or invested in securities representing direct obligations of or obligations guaranteed by the U.S. government, agencies of the U.S. government, any state within the territorial United States of America, repurchase agreements or interest bearing time deposits with state or national banks meeting certain minimum net worth requirements, or certain other investments.

The City's investments are categorized as follows to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealers trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agency, but not in the City's name. The City currently has no investments that are required to be categorized.

The Utah Public Treasurers' Investment Fund (PTIF) is an external deposit and investment pool wherein governmental entities are able to pool the moneys from several entities to improve investment efficiency and yield. These moneys are invested primarily in money market securities and contain no withdrawal restrictions. As such, the moneys invested in this fund are not insured and are subject to the same market risks as any similar investment in money market funds.

2.C. REVENUE RESTRICTIONS

The City has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Sales Tax	See Note 1.E.
Water, Sewer and Housing Authority	Debt Service and Utility Operations
B & C Road Funds	Eligible B & C Roads
Federal and State Grants	Specific to Grant

For the year ended June 30, 2005, the City complied, in all material respects, with these revenue restrictions.

CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2.D. DEBT RESTRICTIONS AND COVENANTS

General Obligation Debt

No debt in excess of total revenue for the current year shall be created by any city unless the proposition to create such debt shall have been submitted to a vote of qualified electors. Cities shall not contract for debt to an amount exceeding four percent of the fair market value of taxable property in their jurisdictions. For the year ended June 30, 2005, the City had \$4,241,969 of outstanding general obligation debt.

Other Long-term Debt

Cities may incur a larger indebtedness for the purpose of supplying such city water, sewer, or electricity when such public works are owned and controlled by the municipality. The additional indebtedness shall not exceed four percent for first and second class cities and eight percent for third class cities. For the year ended June 30, 2005, the City had \$2,729,690 of such indebtedness.

Notes and Bonds Payable

The various loan agreements relating to the notes payable issuances contain some restrictions or covenants that are financial related. These include covenants such as debt service coverage requirement and required reserve account balances. The following schedule presents a brief summary of the most significant requirements and the Authority's level of compliance thereon as of June 30, 2005.

Requirement	Level of Compliance
a. Bonds Payable Coverage:	
	Net water operating revenues (excluding depreciation) must equal 1.25 times the annual debt service plus the unfunded portion of the Debt Service Reserve Requirement to be due and payable for the forthcoming year on the 1991 Water Revenue Bonds, Series A,B & C and Series 1995.
b. Reserve Account Requirement:	
	Various escrows are set up as reserves to make the annual debt payments. Minimum balances are required to be kept in each of the escrows.

CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2.E. FUND EQUITY RESTRICTIONS

Deficit Prohibition

Utah Code 10-6-116(4) indicates the only the "fund balance in excess of 5% of total revenues of the general fund may be utilized for budget purposes." The remaining 5% must be maintained as a minimum fund balance. The maximum in the general fund may not exceed 18% of the total estimated revenue of the general fund. (10-6-116(2)) The City was within the limitations allowed by law.

The following funds carried a negative fund balance or retained earnings as of June 30, 2005:

	<u>Amount</u>
Redevelopment Agency Fund	158,165

2.F. BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3.A. CASH AND INVESTMENTS

Deposits

As of June 30, 2004 and 2005, deposits with banks totaled \$2,970,176 and \$2,649,878 respectively. The carrying amount on the City's books was \$2,598,332 and \$2,664,118 respectively. These deposits were covered by Federal Depository Insurance up to \$200,000. These deposits are not collateralized nor are they required to be by State Statute.

CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Investments

The City has investments with the Utah Public Treasurers' Fund (PTIF) which are not subject to categorization. The carrying amount and market value of the investments at June 30, 2004 and 2005 were \$1,029,174 and \$987,758 respectively.

The City's policies regarding deposits of cash are discussed in Note 1.E. The table presented below is designed to disclose the level of custody credit risk assumed by the City based upon how its deposits were insured or secured with collateral at June 30, 2005. The categories of credit risk are defined as follows:

Category 1—Insured by FDIC or collateralized with securities held by the City (or public trust) or by its agent in its name

Category 2—Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the City's name

Category 3—Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name; or collateralized with no written or approved collateral agreement. The City currently has no investments that are required to be categorized. Investments not subject to categorization at June 30, 2005, were as follows:

Investments in Utah State Treasurers' Investment Fund \$ 987,758

Reconciliation to Government-wide Statement of Net Assets:

	Investments	\$ 987,758
	Deposits	<u>2,718,575</u>
	Total	<u>\$ 3,706,333</u>
Per Statement of Net Assets:		
	Unrestricted Cash	\$ 2,265,841
	Restricted Cash	<u>1,440,492</u>
	Total	<u>\$ 3,706,333</u>

CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

3.B. RESTRICTED ASSETS

The restricted assets as of June 30, 2005, are as follows:

Type of Restricted Asset	Cash/Time Deposits	Investments	Accrued Int.	Total
Business-Type Activities:				
Bond Requirements	308,549			308,549
Impact Fees	591,000			591,000
Inventory	349,934			349,934
Total	<u>1,249,483</u>	<u>-</u>	<u>-</u>	<u>1,249,483</u>
Governmental Activities:				
Redevelopment Agency	(158,165)			(158,165)
Impact Fees	153,389			153,389
Perpetual Care	221,113			221,113
Total	<u>216,337</u>	<u>-</u>	<u>-</u>	<u>216,337</u>
Grand Totals	<u>\$ 1,465,820</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,465,820</u>

3.C. ACCOUNTS RECEIVABLE

Accounts receivable for the business-type activities consist of utilities receivable from the water and sewer utilities. Accounts receivable of the governmental activities consists of electric utilities, sewer utilities, water utilities, other utilities and other receivables. Receivables detail at June 30, 2005, is as follows:

	Governmental Activities	Business-Type Activities	Total
Accounts Receivable	\$ 577,886	\$ 398,095	\$ 975,981
Special Assessments	68,875	-	68,875
Other	9,302	-	9,302
Allowance for Doubtful Accounts	-	(4,208)	(4,208)
Net Accounts Receivable	<u>\$ 656,063</u>	<u>\$ 393,887</u>	<u>\$ 1,049,950</u>

CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance at July 1, 2004	Additions	Disposals	Balance at June 30, 2005
Governmental Activities:				
Land	\$ 205,159	\$ -	\$ -	\$ 205,159
Impact Fees - Street Facilities	20,100	-	-	20,100
Buildings	3,606,738	53,106	-	3,659,844
Improvements	278,886	652,890	-	931,776
Machinery and equipment	893,567	30,015	(159,252)	764,330
Infrastructure	9,970,490	-	-	9,970,490
Totals at historical cost	14,974,940	736,011	(159,252)	15,551,699
Less Accum. Depreciation				
Buildings	(506,942)	(89,568)	-	(596,510)
Improvements	(120,476)	(14,260)	-	(134,736)
Machinery and equipment	(282,188)	(72,904)	-	(355,092)
Infrastructure	(2,992,969)	(332,349)	-	(3,325,318)
Total Accum. Depreciation	(3,902,575)	(509,081)	-	(4,411,656)
Governmental Activities capital assets, net	\$ 11,072,365	\$ -	\$ -	\$ 11,140,043
Business-type activities:				
Land	\$ 320,845	\$ -	\$ -	\$ 320,845
Other Improvements	11,816,703	19,953	-	11,836,656
Machinery and equipment	1,782,028	110,048	-	1,892,076
Water Rights	89,300	-	-	89,300
Impact fee assets	29,117	21,333	-	50,450
Totals at historical cost	14,037,993	151,334	-	14,189,327
Less Accum. Depreciation				
Other Improvements	(4,129,145)	(251,312)	-	(4,380,457)
Machinery and equipment	(969,109)	(210,457)	-	(1,179,566)
Total Accum. Depreciation	(5,098,254)	(461,769)	-	(5,560,023)
Business-type activities capital assets, net	\$ 8,939,739	\$ (310,435)	\$ -	\$ 8,629,304

Depreciation expense was charged to governmental activities as follows:

General government	\$ 110,491
Public safety	52,461
Highways and public improvements	1,377
Parks and recreation	335,677
Community & Economic Development	3,624
Cemetery	5,451
Total depreciation expense	\$ 509,081

3.E. ACCOUNTS PAYABLE

Payables in the general fund are composed of general operating expenses.

CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

3.F. LONG-TERM DEBT

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental Activities:

As of June 30, 2005, the City had \$4,241,969 in governmental long-term debt.

Bonds Payable

Street Bonds Payable, Series 1996	
Original Principal \$2,000,000 @ 3% - 5%	\$ 1,373,771
RDA SID Bonds, Series 1998	
Original Principal \$619,000 @ 5.2%	117,000
Public Safety Bonds, Series 2000	
Original Principal \$670,000 @ 2.5%	583,000
City Office Notes, Series 2001	
Original Principal \$1,925,000 @ 3.85%	1,851,148
Building Authority, Series 1993	
Original Principal \$256,500 @ 3%	134,000
Building Authority, Series 2005	
Original Principal \$141,000 @ 0%	141,000
	<u>4,199,919</u>

Compensated Absences

Total General Long-Term Debt

\$ 4,241,969

CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Business-type Activities:

As of June 30, 2005, the long-term debt payable from proprietary fund resources consisted of the following:

Notes Payable & Revenue Bonds:

1993 Sewer Bond - Series B		
Original Principal \$1,307,000 @ 0.0%	\$	340,000
Water Revenue Bonds, Series 1991		
Original Principal \$940,000 @ 0.0%		433,217
1993 Sewer Bond - Series D		
Original Principal \$509,200 @ 5.45%		99,600
1993 Sewer Bond - Series C		
Original Principal \$333,000 @ 5.45%		1,702,695
2003 Zions Line of Credit		
Original Principal \$174,097 @ 0%		85,385
Total notes & revenue bonds		<u>2,660,897</u>

Capital Leases:

Zions Bank - Meters		
Original Principal \$131,000 @ 4.13%		34,766
Total capital leases		<u>34,766</u>

Compensated Absences

Total Long-term debt		<u>34,027</u>
	\$	<u><u>2,729,690</u></u>

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2005:

Type of Debt	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Governmental Activities:				
Compensated Absences	\$ 33,495	\$ 8,555	\$ -	\$ 42,050
Bonds Payable	<u>4,314,771</u>	<u>141,000</u>	<u>(255,852)</u>	<u>4,199,919</u>
Total Governmental Debt	<u>\$ 4,348,266</u>	<u>\$ 149,555</u>	<u>\$(255,852)</u>	<u>\$ 4,241,969</u>
Business-type Activities:				
Compensated Absences	29,563	4,464	-	34,027
Revenue Bonds Payable	2,824,613	-	(163,716)	2,660,897
Capital Leases Payable	<u>100,595</u>	<u>-</u>	<u>(65,829)</u>	<u>34,766</u>
Total Business-type Debt	<u>\$ 2,954,771</u>	<u>\$ 4,464</u>	<u>\$(229,545)</u>	<u>\$ 2,729,690</u>

The revenue bonds are payable only from the net revenues of the water, and sewer systems, as defined in the bond ordinances. The ordinances further provide that the City establish certain accounts and reserves for bond payment and that all revenues of the system are to be used for operation and maintenance costs of the systems, principal and

CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

interest on the bonds, and establishment of the defined debt repayment reserves and capital facilities replacement account.

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2005, are as follows:

June 30	Capital Leases Business-type
2006	\$ 34,764
2007	-
2008	-
2009	-
2010	-
Thereafter	-
Total commitment	34,764
Less Interest Portion	2,200
Net Capital Leases	<u>\$ 32,564</u>

Year Ending June 30	Notes & Bonds Payable			
	Business-Type		Governmental	
	Principal	Interest	Principal	Interest
2006	\$ 175,753	\$ 90,327	\$ 256,747	\$ 136,895
2007	180,910	85,215	242,685	123,085
2008	184,124	79,940	202,668	115,542
2009	189,397	74,347	208,697	110,273
2010	193,732	68,584	226,775	104,828
2011-2015	782,702	259,333	1,189,929	428,724
2016-2020	754,472	127,820	834,460	266,856
2021-2025	119,893	32,187	465,788	170,322
2026-2030	79,914	5,491	304,666	104,594
2031-2035	-	-	270,502	32,906
Total	<u>\$ 2,660,897</u>	<u>\$ 823,244</u>	<u>\$ 4,202,917</u>	<u>\$ 1,594,025</u>

CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

3.G. INTER-FUND TRANSACTIONS AND BALANCES

Operating Transfers

The City had the following inter-fund transactions for the year ended June 30, 2005.

	<u>Transfer to</u>	<u>Transfer from</u>
Transfer to Airport	\$ 12,000	
Transfer to Building Authority	312,376	
Transfer to B.A. Impact Fees	17,500	
Transfer to General Fund	1,000	
Transfer from General Fund		282,627
Transfer from Cemetery		1,000
Transfer from Special Assessments		47,449
Transfer from Fire District		11,800
	<u>\$ 342,876</u>	<u>\$ 342,876</u>

Due to Due From

	<u>Due To</u>	<u>Due From</u>
General	\$ -	\$ 11,037
Industrial Park	-	1,432.00
Redevelopment Agency	151,121.00	-
Building Authority	10,067.40	-
Water Fund	-	15,368.00
Sewer Fund	-	18,435.00
Electric Fund	-	91,006.00
Garbage Fund	-	2,223.00
Fire District	-	584.00
Housing Authority	-	10,461.00
Rodeo Grounds - Capital Projects	-	320.00
Airport	-	4,089.00
Cemetery	-	6,235.00
Special Assessment Guarantee	2.00	-
	<u>\$ 161,190</u>	<u>\$ 161,190</u>

CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

3.H. FUND EQUITY

Restricted Fund Equity

	Government Activities	Business-Type Activites	Totals
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 7,196,871	\$ 6,277,125	\$ 13,473,996
Restricted for:			
Redevelopment agency	(158,165)	-	(158,165)
Special assessment guarantee	-	-	-
Perpetual care	221,113	-	221,113
Bond Requirements	-	308,549	308,549
Impact fees	153,389	591,000	744,389
Inventory	-	249,934	249,934
Unrestricted (Deficit)	302,067	1,936,273	2,238,340
Total Net Assets	<u>\$ 7,715,275</u>	<u>\$ 9,362,881</u>	<u>\$ 17,078,156</u>

NOTE 4. OTHER NOTES

4A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

The City participates in the following employee pension systems:

Local Governmental – Cost Sharing Defined Benefits Pension Plans

Plan Description. The City contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System), and the Public Safety Noncontributory Retirement System (Public Safety Noncontributory System) for employers with (without) social security coverage, all of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living adjustments, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

CITY OF EPHRAIM, UTAH
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FOR THE YEAR ENDED JUNE 30, 2005

Funding Policy. The City is required to contribute a percentage of covered salary to the respective systems to which they belong; 11.09% to the Noncontributory, and 19.08% to the Public Safety Noncontributory Systems. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The City's contributions to the various Systems for the years ending June 30, 2005, 2004, and 2003, respectively, were; for the Noncontributory System, \$71,467, \$55,063, and \$49,254; and for the Public Safety Noncontributory, \$28,181, \$21,921, and \$18,915. The contributions were equal to the required contributions for each year.

4.B. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has purchased comprehensive general liability insurance through the Utah Local Governments' Trust. The City pays premiums to the Trust for its general insurance coverage, automobile liability, and personal injury protection. The Trust is self sustaining through member premiums. The City is subject to a minimal deductible for claims.

4.C REDEVELOPMENT AGENCY

The following information is presented as required by the Utah State Code Section 17B-4-1305:

The tax increment collected by the agency	\$ 25,000
The amount of tax increment paid to any taxing agency	\$ -
The outstanding principal amount of loans incurred to finance the cost associated with the agency	\$ 117,000
The actual amounts expended for :	\$ -
Acquisition of property	6,176
Site improvements or preparation costs	-
Installation of public utilities or other public improvements	4,279
Administrative costs	\$ 10,455
Total Expended	<u>10,455</u>

CITY OF EPHRAIM, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

4.D. PRIOR PERIOD ADJUSTMENT

During 2005 it was determined that the Ambulance department of the General Fund should be presented as an enterprise fund for the year ended June 30, 2005. A summary in the change in fund balance is presented below.

Change in government-wide financials:

	Balance June 30, 2004
Cash and cash equivalents	\$ 42,416
Accounts receivable	21,437
Capital assets (net of depreciation)	167,248
Due from other funds	18
Prior period adjustment - government wide statements	<u>\$ 231,119</u>

Change in fund financials statements

Cash and cash equivalents	\$ 42,416
Accounts receivable	21,437
Due from other funds	18
Prior period adjustment - fund financial statements	<u>\$ 63,871</u>

SUPPLEMENTARY INFORMATION

Ephraim City
Combining Balance Sheet for Nonmajor Governmental Funds
June 30, 2005

	Special Revenue Fund		Permanent Funds	Total Non-major Governmental Funds
	Redevelopment Agency	Special Assessment Guaranty	Cemetery Perpetual Care	
ASSETS				
Restricted Assets:				
Cash and cash equivalents	\$ 10,712	\$ 2	\$ 211,845	\$ 222,559
Accounts receivable	59,734	6,108	3,033	68,875
Due from other funds	-	-	6,235	6,235
Total Assets	<u>\$ 70,446</u>	<u>\$ 6,110</u>	<u>\$ 221,113</u>	<u>\$ 297,669</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accrued liabilities	\$ 2,535	\$ -	\$ -	\$ 2,535
Deferred revenue	74,955	6,108	-	81,063
Due to other funds	151,121	2	-	151,123
Total Liabilities	<u>228,611</u>	<u>6,110</u>	<u>-</u>	<u>234,721</u>
Fund balances:				
Reserved	(158,165)	-	221,113	62,948
Total Fund Balances	<u>(158,165)</u>	<u>-</u>	<u>221,113</u>	<u>62,948</u>
Total Liabilities and Fund Balance	<u>\$ 70,446</u>	<u>\$ 6,110</u>	<u>\$ 221,113</u>	<u>\$ 297,669</u>

Ephraim City
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2005

	Special Revenue Funds		Permanent Funds	Total Non-major Governmental Funds
	Redevelopment Agency	Special Assessments Guaranty	Cemetery Perpetual Care	
REVENUES:				
Taxes	\$ 25,000	\$ -	\$ -	\$ 25,000
Interest income	76	-	-	76
Charges for services	45,372	-	4,332	49,704
Miscellaneous	6,250	-	-	6,250
Total	<u>76,698</u>	<u>-</u>	<u>4,332</u>	<u>81,030</u>
EXPENDITURES:				
Community and economic development	10,455	-	-	10,455
Debt Service:				
Principal	75,516	-	-	75,516
Interest	(1,430)	-	-	(1,430)
Total	<u>84,541</u>	<u>-</u>	<u>-</u>	<u>84,541</u>
Excess of Revenues Over (Under) Expenditures	<u>(7,843)</u>	<u>-</u>	<u>4,332</u>	<u>(3,511)</u>
OTHER FINANCING SOURCES (USES)				
Interest income	-	-	2,873	2,873
Transfer out	-	(47,449)	(1,000)	(48,449)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(47,449)</u>	<u>1,873</u>	<u>(45,576)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(7,843)</u>	<u>(47,449)</u>	<u>6,205</u>	<u>(49,087)</u>
Fund Balances - Beginning	(150,322)	47,449	214,908	112,035
Fund Balances - Ending	<u>\$ (158,165)</u>	<u>\$ -</u>	<u>\$ 221,113</u>	<u>\$ 62,948</u>

Ephraim City
Combining Statement of Net Assets
Nonmajor Proprietary Funds
June 30, 2005

	Business-Type Activities - Enterprise Funds					Total
	Solid Waste	Fire District	Industrial Park	Rodeo Grounds	Ambulance Fund	
ASSETS						
Current Assets:						
Cash and cash equivalents	\$ 32,865	\$ 8,639	\$ 21,169	\$ 4,733	\$ 54,458	\$ 121,864
Accounts Receivable:						19,850
Utilities receivable	13,822	6,028	-	-	-	(170)
Allowance for doubtful accounts	(131)	(39)	-	-	-	2,549
Other receivables	-	-	721	3,127	(1,299)	-
Inventory - at cost	-	-	-	-	-	4,559
Due from other funds	2,223	584	1,432	320	-	-
Total Current Assets	<u>48,779</u>	<u>15,212</u>	<u>23,322</u>	<u>8,180</u>	<u>53,159</u>	<u>148,652</u>
FIXED ASSETS						
Improvements	-	-	-	142,187	-	142,187
Less: accumulated depreciation	-	-	-	(3,160)	-	(3,160)
Machinery and equipment	86,672	-	-	-	220,776	307,448
Less: accumulated depreciation	(78,053)	-	-	-	(53,527)	(131,580)
Total Noncurrent Assets	<u>8,619</u>	<u>-</u>	<u>-</u>	<u>139,027</u>	<u>167,249</u>	<u>314,895</u>
Total Assets	<u>57,398</u>	<u>15,212</u>	<u>23,322</u>	<u>147,207</u>	<u>220,408</u>	<u>463,547</u>
LIABILITIES						
Current Liabilities:						
Accounts payable	-	3,419	-	254	-	3,673
Current portion of bonds payable	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-
Total Current Liabilities	<u>-</u>	<u>3,419</u>	<u>-</u>	<u>254</u>	<u>-</u>	<u>3,673</u>
NET ASSETS						
Invested in capital assets, net of related debt	8,619	-	-	139,027	167,249	314,895
Retained Earnings						
Restricted for:						
Inventory	-	-	-	-	-	-
Unreserved	48,779	11,793	23,322	7,926	53,159	144,979
Total Net Assets	<u>\$ 57,398</u>	<u>\$ 11,793</u>	<u>\$ 23,322</u>	<u>\$ 146,953</u>	<u>\$ 220,408</u>	<u>\$ 459,874</u>

Ephraim City
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds					
	Solid Waste	Fire District	Industrial Park	Rodeo Grounds	Ambulance Fund	Total
Operating Revenues:						
Charges for sales and services	\$ 127,022	\$ 48,914	\$ -	\$ -	\$ 73,859	\$ 249,795
Miscellaneous	-	-	-	-	10,177	10,177
Total Operating Revenues	127,022	48,914	-	-	84,036	259,972
Operating Expenses:						
Salaries and wages	-	-	-	-	6,533	6,533
Administrative costs	4,497	-	-	-	-	4,497
Materials and supplies	-	-	-	2,133	32,080	34,213
Repairs and maintenance	-	-	-	-	12,488	12,488
Depreciation	-	-	-	3,160	11,855	15,015
Service in lieu of taxes	115	23,200	-	-	-	23,315
Insurance	1,070	-	-	-	-	1,070
Professional services	-	32,801	-	1,700	20,399	54,900
Utilities and telephone	-	-	-	-	-	-
Landfill costs	38,659	-	-	-	-	38,659
Collection costs	71,358	-	-	-	-	71,358
Travel	-	-	-	-	5,726	5,726
Capital Outlay	-	-	-	-	-	-
Miscellaneous	(96)	-	-	-	6,010	5,914
Total Operating Expenses	115,603	56,001	-	6,993	95,091	267,155
Operating income	11,419	(7,087)	-	(6,993)	(11,055)	(7,183)
Nonoperating Revenues (Expenses):						
Interest revenue	-	-	-	-	344	344
Interest Expense	-	-	-	-	-	-
Total Nonoperating Revenues (Expenses)	-	-	-	-	344	344
Other Financing Sources (Uses)						
Operating transfers out	-	(11,800)	-	-	-	(11,800)
Total Other Financing Sources (Uses)	-	(11,800)	-	-	-	(11,800)
Net Income (Loss)	11,419	(18,887)	-	(6,993)	(10,711)	(25,172)
Change in Net Assets	11,419	(18,887)	-	(6,993)	(10,711)	(25,172)
Total Net Assets - Beginning	45,979	30,680	23,322	153,946	-	253,927
Prior Period Adjustment	-	-	-	-	231,119	231,119
Total Net Assets - Ending	\$ 57,398	\$ 11,793	\$ 23,322	\$ 146,953	\$ 220,408	\$ 459,874

Ephraim City
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds					
	Solid Waste	Fire District	Industrial Park	Rodeo Grounds	Ambulance Fund	Total
Cash Flows From Operating Activities						
Receipts from customers	\$ 131,120	\$ 54,755	\$ 4,819	\$ 26,793	\$ 96,597	\$ 314,084
Other cash receipts	-	-	-	-	10,177	10,177
Payments to suppliers	(115,603)	(52,582)	-	(92,974)	(88,199)	(349,358)
Payments to employees	-	-	-	-	(6,533)	(6,533)
Net cash provided (used) by operating activities	15,517	2,173	4,819	(66,181)	12,042	(31,630)
Cash Flows From Non-Capital and Related Financing Activities						
Operating transfers out	-	(11,800)	-	-	-	(11,800)
Net cash provided (used) by non-capital and related financing activities	-	(11,800)	-	-	-	(11,800)
Net increase (decrease) in cash and cash equivalents	15,517	(9,627)	4,819	(66,181)	12,042	(43,430)
Cash and cash equivalents, July 1	17,348	18,266	16,350	70,914	42,416	165,294
Cash and cash equivalents, June 30	<u>\$ 32,865</u>	<u>\$ 8,639</u>	<u>\$ 21,169</u>	<u>\$ 4,733</u>	<u>\$ 54,458</u>	<u>\$ 121,864</u>
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income	<u>\$ 11,419</u>	<u>\$ (7,087)</u>	<u>\$ -</u>	<u>\$ (6,993)</u>	<u>\$ (11,055)</u>	<u>\$ (13,716)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	-	-	-	3,160	11,855	15,015
(Increase) decrease in accounts receivable	3,672	3,636	3,755	16,285	22,720	50,068
(Increase) decrease in due from/to other funds	426	2,205	1,064	10,508	18	14,221
(Increase) decrease in inventories	-	-	-	-	-	-
Increase (decrease) in accrued liabilities	0	3,419	0	(89,141)	(11,496)	(97,218)
Total adjustments	<u>4,098</u>	<u>9,260</u>	<u>4,819</u>	<u>(59,188)</u>	<u>23,097</u>	<u>(17,914)</u>
Net cash provided (used) by operating activities	<u>\$ 15,517</u>	<u>\$ 2,173</u>	<u>\$ 4,819</u>	<u>\$ (66,181)</u>	<u>\$ 12,042</u>	<u>\$ (31,630)</u>

**CITY OF EPHRAIM, UTAH
INDEPENDENT AUDITORS' REPORT IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*
AND INDEPENDENT AUDITORS' REPORT
ON LEGAL COMPLIANCE
MANAGEMENT LETTER
JUNE 30, 2005**

**CITY OF EPHRAIM, UTAH
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GOVERNMENT AUDITING STANDARDS REPORT



LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

October 28, 2005

Honorable Mayor and
City Council Members
Ephraim City, Utah

We have audited the accompanying basic financial statements of Ephraim City, Utah (herein referred to as the "City"), as of and for the year ended June 30, 2005, and have issued our report thereon dated October 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the City in the management letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material

weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in the management letter.

This report is intended for the information of the Mayor and City Council, management, and various federal and state funding and auditing agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Larson & Company".

Larson & Company
Certified Public Accountants

STATE COMPLIANCE REPORT



LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON LEGAL COMPLIANCE WITH
APPLICABLE UTAH STATE LAWS AND REGULATIONS**

October 28, 2005

Honorable Mayor and
City Council Members
Ephraim City, Utah

We have audited the basic financial statements of Ephraim City, Utah, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 28, 2005. As part of our audit, we have audited the Ephraim City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major State assistance programs from the State of Utah:

B and C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

Our audit also included test work on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

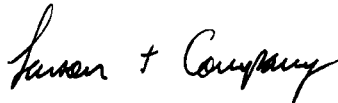
Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth In Taxation
Justice Court
Other General Compliance Requirements
Uniform Building Code Standards
Impact Fees and Other Development Fees
Asset Forfeiture

The management of the Ephraim City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Ephraim City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

A handwritten signature in cursive script that reads "Larson & Company".

Larson & Company
Certified Public Accountants

MANAGEMENT LETTER

CITY OF EPHRAIM, UTAH CURRENT YEAR FINDINGS

INTERNAL CONTROL AND ACCOUNTING

FINDING – SALES TAX CALCULATION

The sales tax calculation for the month of June was incorrect for the utility billing for the month of June. There was an error when the rate was entered into Caselle. This caused some customers to be slightly undercharged for that month.

RECOMMENDATION

We recommend that when utility rates change (ie sales tax), that they be double checked before the next utility billing cycle runs.

EPHRAIM CITY'S RESPONSE

The City had caught the error soon after the June billing and corrected the rate in Caselle.

STATE COMPLIANCE

FINDING – BUDGETED REVENUES

Budgeted revenues on the TC-693 Report for property taxes do not equal budgeted revenues for property taxes in the City's adopted budget as required by law.

RECOMMENDATION

We recommend that the City comply with this state regulation by ensuring that the adopted budget for property taxes equals the amount on the TC-693 Report.

EPHRAIM CITY'S RESPONSE

The City does not always receive information on the certified tax rate in a time to reflect that information in the original budget.

**CITY OF EPHRAIM, UTAH
CURRENT YEAR FINDINGS (CONTINUED)**

FINDING - DEFICIT FUND BALANCE

A deficit equity balance existed in the Redevelopment Agency Fund. State law prohibits deficit equity balances.

RECOMMENDATION

We recommend that expenditures be monitored in the Redevelopment Agency to ensure that the deficit balance is reversed.

EPHRAIM CITY'S RESPONSE

The nature of Redevelopment Agencies prevents municipalities from avoiding deficit fund balances. The City will monitor expenses in the Redevelopment Agency to ensure that the deficit fund balance is reversed.

**CITY OF EPHRAIM, UTAH
STATUS OF PRIOR YEAR FINDINGS**

INTERNAL CONTROL AND ACCOUNTING

FINDING – CASH DISBURSEMENTS

Of 60 disbursements tested, 11 lacked proper documentation

STATUS

No problems noted in current year audit.

FINDING - LACK OF SEPARATION OF DUTIES

Because the same people who handle cash receipts also perform various bookkeeping functions and utility billings, there is no system of "independent checking" as would exist in a City with more accounting personnel. For example, it is usually best to assign the responsibility for receipting utility payments to someone other than the person in charge of utility billing. This lack of separation of duties provides an environment where City assets could be more easily misappropriated.

STATUS

No change. Resources limit the City's ability to fully segregate duties. City council continues to approve transactions in an effort to mitigate the risks associated with the lack of a full separation of duties.

STATE COMPLIANCE

FINDING – PURCHASING POLICY

Uniform Fiscal Procedures Act 10-6-122 requires that the City Council formally adopt a purchasing policy. The City does not appear to have a formal purchasing policy adopted.

STATUS

The policy has been adopted.

CITY OF EPHRAIM, UTAH
STATUS OF PRIOR YEAR FINDINGS (CONTINUED)

FINDING – BUDGETED REVENUES

Budgeted revenues on the TC-693 Report for property taxes do not equal budgeted revenues for property taxes in the City's adopted budget as required by law.

STATUS

See current year findings.

FINDING - DEFICIT FUND BALANCE

A deficit equity balance existed in the Redevelopment Agency and the Capital Projects Fund (Building Authority.) State law prohibits deficit equity balances.

STATUS

See current year findings.